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TO RUEHC/SECSTATE WASHDC IMMEDIATE 6979
INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHBY/AMEMBASSY CANBERRA 0791
RUEHBJ/AMEMBASSY BEIJING 1648
RUEHKA/AMEMBASSY DHAKA 4702
RUEHNE/AMEMBASSY NEW DELHI 4337
RUEHUL/AMEMBASSY SEOUL 7882
RUEHKO/AMEMBASSY TOKYO 5443
RUEHCN/AMCONSUL CHENGDU 1287
RUEHCHI/AMCONSUL CHIANG MAI 1301
RUEHMT/AMCONSUL MONTREAL 0050
RUEATRS/DEPT OF TREASURY WASHDC
RUEHGV/USMISSION GENEVA 3434
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC
RUEKJCS/JOINT STAFF WASHDC
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C O N F I D E N T I A L SECTION 01 OF 03 RANGOON 000004

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E.O. 12958: DECL: 01/07/2018

TAGS: ECON PGOV PREL EAIR BM

SUBJECT: MYANMAR AIRWAYS INTERNATIONAL TO RESUME FLIGHTS

REF: 07 RANGOON 1098

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Classified By: Economic Officer Samantha A. Carl-Yoder for Reasons 1.4
(b and d)

¶1. (C) Summary. Myanmar Airways International (MAI), a joint venture between the Burmese Government and Region Air of Singapore, will resume flights to Bangkok and Kuala Lumpur beginning January 15, 2008. In October, MAI halted its international flights when the company could no longer afford to pay its aircraft leases and insurance premiums. MAI General Manager Aung Gyi confirmed that while the company continues to suffer financial difficulties, partner Region Air recently injected capital into the company, allowing MAI to lease for six months an A319 from Bhutan company Druk Air and pay its costly insurance rates. While MAI hopes to compete with other international airlines for passengers, Aung Gyi admitted that because of U.S. financial sanctions, MAI loses approximately \$50,000 a month in exchange rate fees between U.S. dollars and Singapore dollars. End Summary.

Up, Up, and Away

¶2. (U) On December 26, Myanmar Airways International (MAI) issued a press release, announcing it will resume flights to Bangkok and Kuala Lumpur beginning January 15, 2008. Using its newly-leased A319, MAI will fly six times a week to Bangkok and four times a week to Kuala Lumpur. MAI, which halted flights in October (Reftel), continues daily flights to Singapore with code share partner Jet Star.

¶3. (C) Although MAI will resume flights, Managing Director Aung Gyi told us that MAI still faces financial difficulties. MAI management has pleaded with the Burmese Government,

which is part owner of the airline, for financial assistance since October, when MAI had to cancel its airplane lease and skyrocketing insurance due to lack of funds. Aung Gyi emphasized that the GOB refused to assist MAI and informed the company to find funding elsewhere. MAI's partner, Singapore-based Region Air, recently injected capital into the company, allowing MAI to lease a new A319 from Bhutan-based Druk Air for six months. Assuming MAI earns a profit over the next six months, Aung Gyi plans to extend the lease on an annual basis.

¶4. (C) Acknowledging how difficult it will be to fly to both Bangkok and Kuala Lumpur with only one plane, Aung Gyi noted that MAI could not afford to lease more than one plane. The A319 lease costs MAI \$400,000 a month. With a passenger capacity of 114 people, Aung Gyi explained that for MAI to earn a profit, the company must sell fifty percent of the seats. MAI could have leased a smaller plane, such as an MD-82, for less money, he explained, but the A319s, which are more fuel efficient than older planes, cost less to run and maintain. With lower fares than its competitors and the new plane, MAI expects to attract customers and perhaps turn a profit in 2008.

Insurance Coverage, For Now

¶5. (C) Aung Gyi complained that Lloyds of London, which insures many Burmese companies, classifies Burma as a country with "war-like conditions." This classification, Aung Gyi asserted, allows Lloyds to charge astronomical rates for insurance coverage. Region Air's capital injection helped cover the cost of the premiums, but MAI needs to make a profit to continue operations, Aung Gyi stated. If Burma's political situation remains stable for one year, he

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continued, Lloyds should reduce insurance rates. According to Brett Melzer, owner of Balloons over Bagan (also insured by Lloyds), Lloyds is under increasing pressure from the Burma Campaign UK to cancel insurance for all Burmese air carriers. Several Lloyds representatives told him that Lloyds will continue to monitor Burma closely, but that the company was not inclined to cancel insurance on Burmese airlines at this time.

U.S. Sanctions Costly

¶6. (C) MAI and other Burmese airlines feel the pinch of U.S. sanctions, Aung Gyi lamented. In order to pay for plane leases, insurance, and maintenance fees, Burmese airlines must use U.S. dollars. However, U.S. financial sanctions make it difficult for any Burmese company to use dollars without having their transactions frozen, he stated. Companies must open bank accounts overseas, primarily in Singapore, and conduct business in both U.S. dollars and Singapore dollars. However, not all Burmese companies are allowed to open up U.S. dollar bank accounts, and instead must change money into Singapore dollars at a lower exchange rate. MAI, Aung Gyi noted, has a Singapore dollar account at HSBC and loses up to \$50,000 a month in exchange rate transaction fees. Other Burmese airlines face the same problem, he explained, although their monthly losses average \$20,000.

Other Airlines Facing Problems

¶7. (SBU) Although MAI's future looks brighter, other international airlines servicing Rangoon do not have the same outlook. Qatar Airlines, which began roundtrip service from Doha to Rangoon in 2004, will stop service on January 10 due to lack of customers. Thai Airways General Manager Surariddhi Boon-Long told us that in previous years, flights from Doha to Rangoon were full. However, 2007 load capacity

averaged between 20-30 percent, making the flight too costly for Qatar Airways. Hong Kong Express, which launched direct flights from Hong Kong to Rangoon in October, no longer has weekly scheduled flights, and instead will offer seasonal charters for the gem and mineral emporiums. China Southern, which opened its Rangoon office in December, has also announced that it will reduce flights between Rangoon and Guangzhou from three times a week to twice weekly.

¶ 8. (SBU) The media recently reported that Air Bagan will begin service to Seoul, Chennai, Dhaka, Kunming, and Siem Reap in 2008. Aviation insiders confirmed that Air Bagan will offer charter services to Seoul, but doubt that the company will have many flights. Air Bagan operates an A310, an older plane that uses 160,000 gallons of fuel an hour. This plane costs too much to operate, Aung Gyi explained. If Air Bagan flew to Seoul, it would need to sell 70 percent of the seats (approximately 140 seats) in order to break even. Flying to the other destinations, which are closer and therefore more costly, is a "pipe dream," Aung Gyi concluded.

Comment

¶ 9. (C) Burma's international aviation sector continues to slump, and the reintroduction of MAI's flights to Bangkok and Kuala Lumpur may do little to reinvigorate the sector. Demand for international flights to and from Burma is stagnant, as tourism levels have declined and most Burmese lack the financial wherewithal to pay for overseas travel.

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We doubt MAI can succeed where other airlines, such as China Southern and Qatar Airlines, have failed: in attracting passengers and earning a profit.

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